

ANNUAL REPORT

JUNE 30, 1978

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DIGITECH LTD.

A RESOURCE DEVELOPMENT SERVICE COMPANY



DIRECTORS:

Donald C. Burt, President, Digitech Ltd., Calgary, Alberta
Richard Burke, Vice President, Canadian Enterprise Development Corporation Limited, Vancouver, B.C.
E. Keith Conrad, Partner, Conrad, Bloomenthal, Calgary, Alberta
David B. Nicholson, Management Consultant
Donald W. Simpson, Vice President, Digitech Ltd., Calgary, Alberta
Donald G. Thurston, Vice President, Bow Valley Resource Services Ltd., Calgary, Alberta

OFFICERS:

Donald C. Burt, President
E. Keith Conrad, Chairman of the Board
W. D. DeGraff, Secretary-Treasurer
Hilton G. Hack, Vice President
Roger R. Rose, Vice President
Donald W. Simpson, Vice President
Neil M. Thompson, Vice President

HEAD OFFICE:
DIGITECH LTD.

500, 441 - 5 Avenue S.W.
Calgary, Alberta T2P 2V1

TRANSFER AGENTS AND REGISTRARS:

Montreal Trust Company
Calgary, Toronto and Vancouver

AUDITORS:

Price Waterhouse & Co.
Calgary, Alberta

LEGAL COUNSEL:

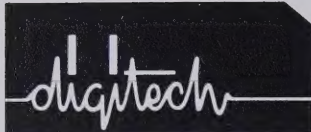
Macleod Dixon
Calgary, Alberta

BANKERS:

The Toronto Dominion Bank
Calgary, Alberta

STOCK LISTED:

Toronto Stock Exchange



REPORT TO THE SHAREHOLDERS OF DIGITECH LTD.



Digitech Ltd. has just completed a most successful year and the Company is very pleased to report a profit of \$946,000 on revenues of \$5,973,000 for the fiscal year ended June 30, 1978. This compares to a profit of \$231,000 recorded during fiscal 1977 on revenues of \$4,398,000. Costs for fiscal 1978 increased by 17%.

Again this year, as in 1977, our fourth quarter was a record quarter for the Company. Compared to the fourth quarter of fiscal 1977, revenues increased by 18%, while profits were \$265,000, an increase of 26%. This marks the seventh consecutive quarter that the Company has reported a profit.

Much of the reason for our success this year is due to our many dedicated employees. I wish to extend my thanks and appreciation to them for a job that has been accomplished so well.

More cost effective hardware has also contributed to profits. In December, 1977, our UNIVAC 1106 was upgraded to an 1108. This upgrade resulted in considera-

bly more computer capacity, which, in turn, caused faster turnaround of jobs, generating increased revenues. Late in the fiscal year, a front end processor was put into operation and although too late to have a material effect on revenue this year, this processor will show a positive impact on the balance sheet during fiscal 1979.

Another factor in the profit performance was the high level of exploration activity which continued unabated through the year. This level and the fact that Digitech could process more data through increased computer facilities, added materially to the profit picture. Also, during the year our Digitech Seismic Processing System (DSPS) was upgraded into a more efficient system which simplified the coding and resulted in increased automation of our seismic processing.

Our outlook for 1979 is optimistic. Effort is constantly being expended to improve our processing systems. In addition to exploration activity, which is expected to continue high, Digitech is aggressively seeking new markets and products. We are moving rapidly into the expansion of our services in the data management field. A new UNIVAC 1106 computer with a larger 524K memory is presently being installed and is scheduled to be operational in late October. We feel that this additional capacity is necessary to expand our files and data management division.

Late in the year Digitech added another facet to its operations. With other partners, DIGISEIS Exploration Ltd., Calgary and DIGISEIS Exploration, Inc., Denver, were formed. Digitech retained majority voting interest in these two newly formed seismic contracting companies. Initially DIGISEIS, Calgary will have two dynamite crews and DIGISEIS, Denver will operate one 'Vibroseis'* crew. (*Registered trademark of Continental Oil Company.) At the time of this report, all crews are operating. These companies are expected to contribute to the profit of Digitech in 1979.

In closing, I would like to extend my appreciation to the Directors, management and staff for their outstanding contribution on behalf of the Company during the past year and express the hope that this relationship will continue through the years that lie ahead.

A handwritten signature in dark ink, reading "D. C. Burtt". The signature is written in a cursive, flowing style.

D. C. BURTT
President

DIGITECH SERVICES

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DIGITECH—THE COMPANY

Digitech is the largest commercial earth science computer processing company in Canada. Digitech's strength lies in our ability to offer a TOTAL CAPABILITY to the petroleum and other resource industries through our complete range of integrated data processing services.

Digitech is an acknowledged leader in the petroleum industry with a continued corporate emphasis on:

- constant and consistent research and development activities;
- depth and breadth of experience and expertise;
- in-depth geophysical and geological expertise;
- combined computer and resource industry experience and expertise to obtain the best 'marriage' of the industry to the technology;
- quality control over all phases of processing;
- an elaborate client data security system to cover all aspects of processing;
- TOTAL CAPABILITY services through our Calgary office.

At Digitech, with our staff of experts and advanced technology, we provide the ultimate in 'state of the art' processing.

GEOPHYSICAL DATA PROCESSING

Since its incorporation in 1966, Digitech has been actively involved in digital processing of land and marine geophysical survey data for the petroleum exploration industry in Canada and abroad. The result of continuous development of software capabilities and processing techniques by an experienced staff of geophysicists and programmers is available to our clients either through contract processing of data, or, if preferred, via our Remote Job Entry (RJE) facilities to access our processing/graphics software.



GEOPHYSICAL DATA PROCESSING

(Continued)

SEISMIC PROCESSING CAPABILITY

Our seismic processing software is flexible, efficient and easy-to-use. The software and hardware system operate in full floating point mode throughout. Our seismic software offerings include:

- **DSPS** (Digitech Seismic Processing System);
- **WAV45***—wave equation migration;
- **SONISEIS**—wavelet extraction, reflectivity section and inversion to interval velocities;
- multiplex, demultiplex and format conversion/display services;
- **REMAP** and **DEMAP**—multiple attenuation.

*Trademark of Seismic Programming International.

POTENTIAL FIELD CAPABILITY

Digitech has a variety of programs for data reduction, editing and display of gravity and magnetic data. In addition, the Geo Science Processing System (GSPS) provides access to a variety of analytical statistical techniques such as trend surface analysis with extensive display capabilities available for both two dimensional and three dimensional cases.

MODELLING CAPABILITY

Digitech's library of over 10,000 well logs from Western Canada, N.W.T. and the east coast makes seismic velocity and horizon information immediately available. Our software will generate synthetic seismograms or sections using standard or client-specified parameters in DSPS format for display or further seismic processing.

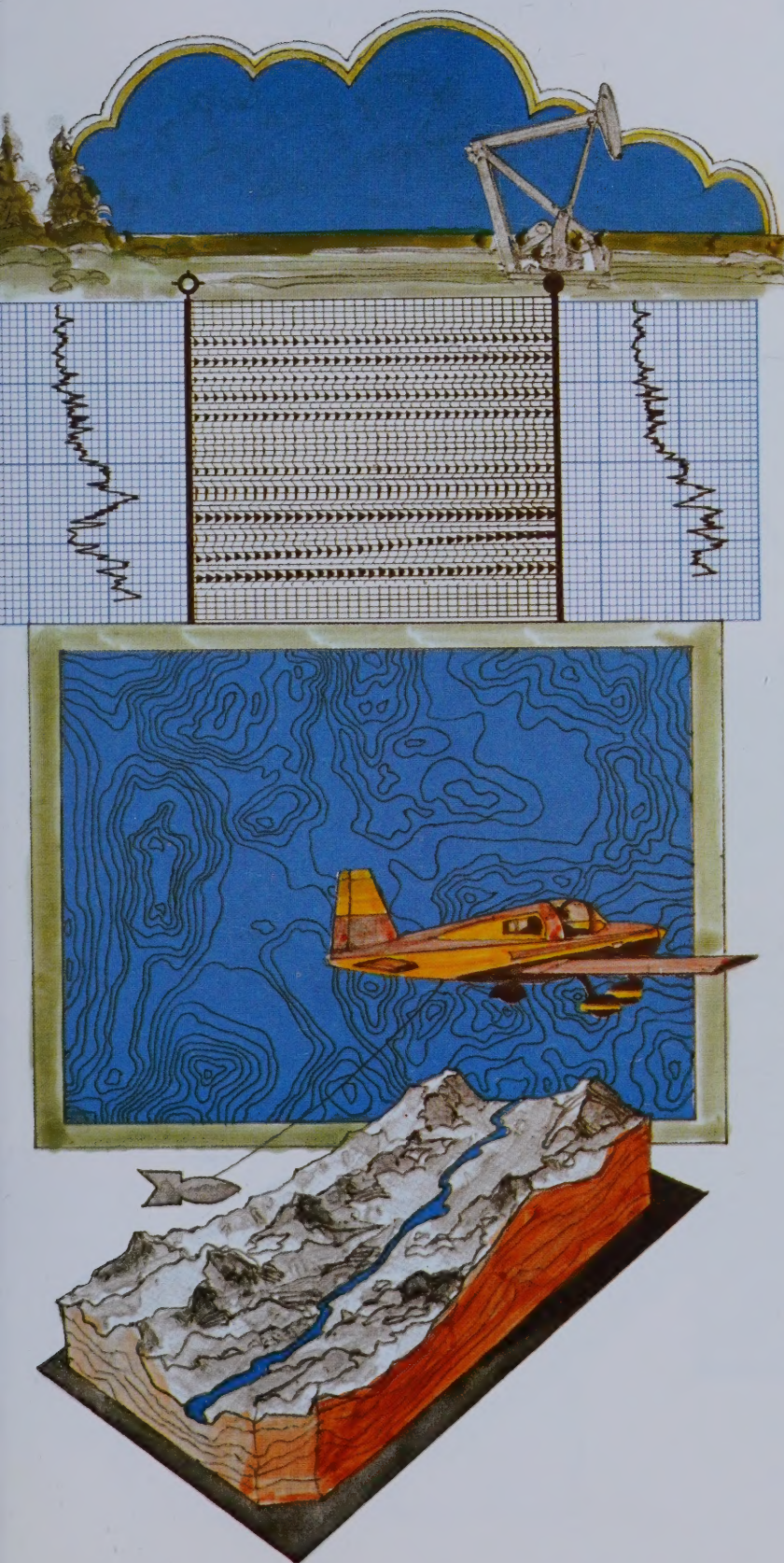
- **Synthetic Seismograms**

Standard Sonigrams and custom synthetics are generated from density and/or sonic logs. Wavelets may be selected from an extensive library or may be extracted from real data. Random or systematic noise may be introduced.

- **AIMS*** Advanced Interpretive Modeling System

An internationally recognized system for software seismic modeling. It is appropriate for stratigraphic as well as structural models. Wave theory and ray tracing methods are available.

*Registered trademark of GeoQuest International Inc.





GRAVITY AND MAGNETICS
PROCESSING MAPS

WELL LOG ANALYSIS

CONTOUR AND TOPOGRAPHICAL
MAPS

COMPUTER PROCESSING
AND ANALYSIS

GEOPHYSICAL AND
GEOLOGICAL MODELS

DIGITIZING CAPABILITY

Many years of development and experience in digitizing have produced software systems and operating procedures which have made Digitech the acknowledged service industry leader in digitizing capabilities. This leadership has been achieved through:

ELABORATE QUALITY CONTROL and CORRECTION TECHNIQUES

- utilizing check plots and computer listings in digitizer or engineering units;
- sophisticated digitizing error detection software, ease of digit access for corrections.

USER ACCESS TO DIGIT FILES

- higher level language interfaces to allow user access to data files.

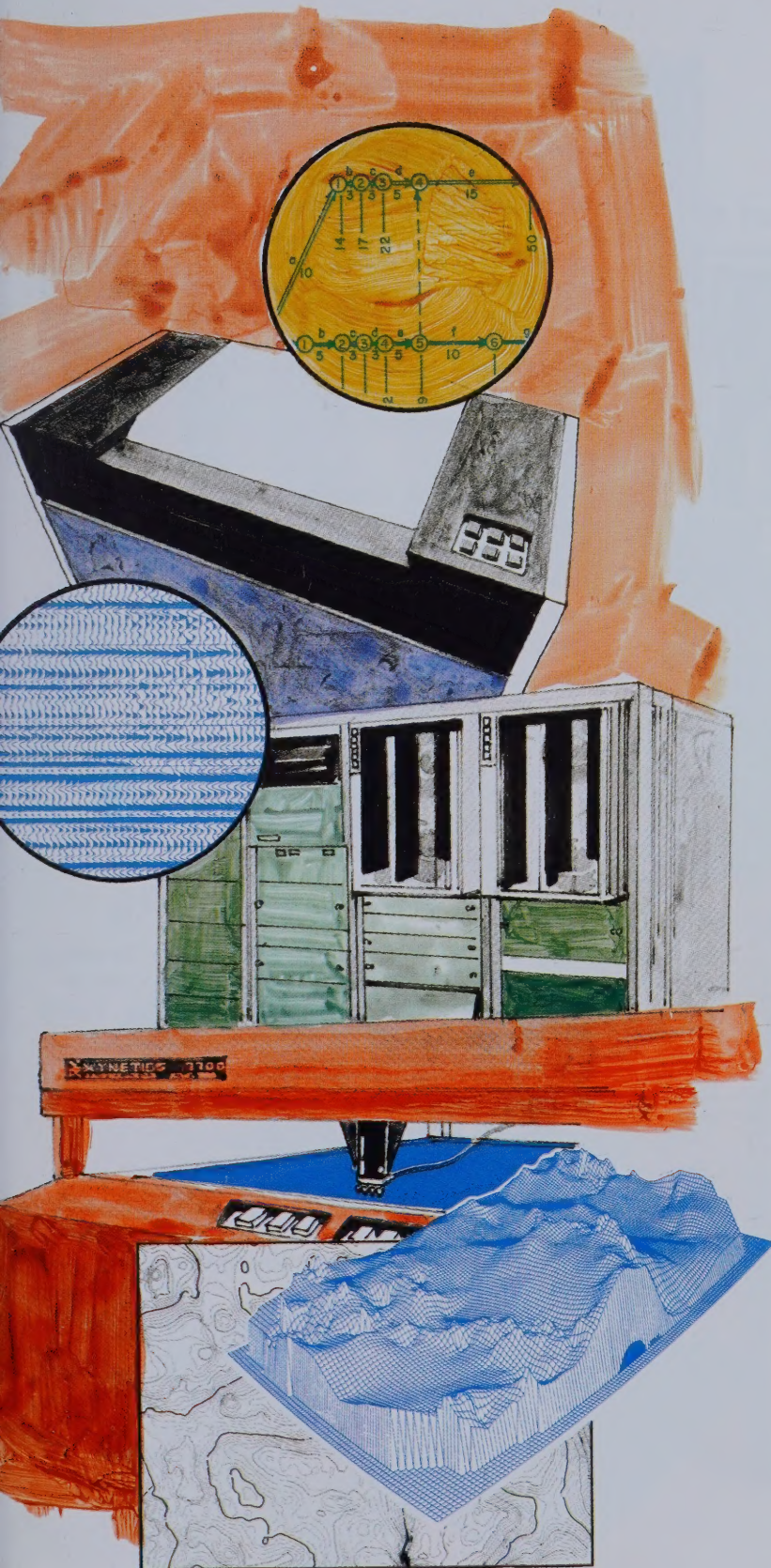
COMPLETE PRODUCT DEVELOPMENT

- digitize original data;
- design and generate data files;
- design and implement retrieval and update software;
- interface to Digitech several standard report generation and plotting facilities.

OTHER DIGITIZING APPLICATIONS INCLUDE

- well logs or any analog strip charts;
- contour or topographical maps;
- correlated horizons from seismic sections;
- seismic shot point locations;
- drill stem tests
- gravity or magnetic data by point control.





GRAPHICS CAPABILITY

Digitech's plotting capability lies in our extensive hardware and software systems. The plotting hardware includes:

MULTI-COLOR FLATBED PLOTTER (42" x 57" + .0005" resolution)

- general plotting;
- mapping (posted or contoured);
- Sonigrams and other geological/geophysical graphics;
- drafting.

PHOTOGRAPHIC PLOTTER

- seismic data display;
- geological and geophysical plotting;
- automatic annotation and label preparations.

ELECTROSTATIC PLOTTER

- geophysical and geological graphics;
- PERT/CPM charts;
- high speed graphic and text output.

Digitech's extensive plotting software includes:

GSPS (Digitech's Geo Science Processing System)

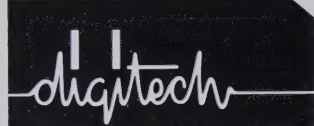
- This generalized exploration graphics system accepts input data files and allows the user to statistically analyse and/or display the data. Profile or map output may be generated without having to specify the format characteristics for a specific plotter. The capabilities of GSPS include:
 - input from digitizing system or field recorded cards or tape;
 - outputs of plotted maps, drawings, etc. on desired plotter or graphic CRT;
 - output is processed data files and processing reports;
 - access via remote job entry, over-the-counter or time-share.

SPECIAL PURPOSE APPLICATIONS SOFTWARE

- geophysical plotting;
- mapping generation;
- drafting.

CLIENT APPLICATIONS

- Data bases can be designed, generated and implemented through Digitech's software which are tailored to the specific requirements of individual clients.



DATA BASE AND FILES CAPABILITY

Digitech specializes in the design, implementation and support of data files through a variety of both internally and externally developed data base management systems. Digitech's Data Base Administration Group is responsible for ensuring the quality, currency and integrity of the data base environment in the areas of creation, maintenance, standards, surveillance and security. This group will assist and support clients in the implementation of client generated and maintained data bases and the access of Digitech generated and maintained files including:

PDS (Production Data System)

- production and injection information for all wells which produce or have produced hydrocarbons in most of Canada;
- cumulative figures prior to 1962;
- monthly figures from 1962;
- complete graphics capability.

OMEGA

- general well data/drill stem tests/core analysis/water and gas analysis/drilling statistics/geological markers/etc.
- complete graphics capability.

Digitech will participate in the design, development, implementation and support of special purpose client data bases on a contract or royalty basis under:

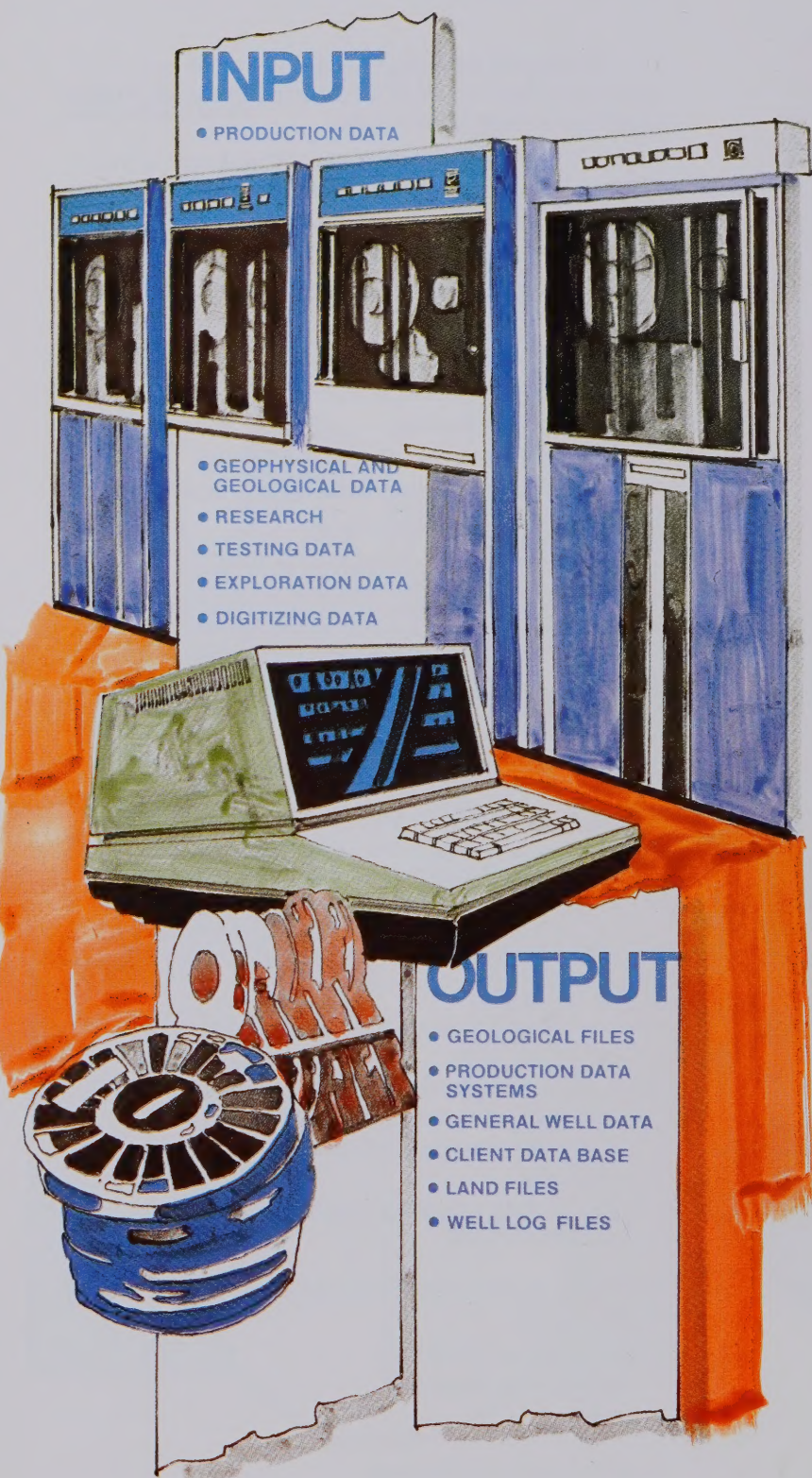
DMS-1100 (UNIVAC's Data Base Management System)

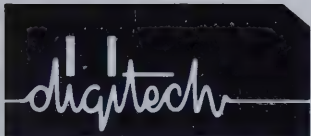
- supports batch or demand users;
- "state of the art" access techniques;
- multi-user interrogation and update of large data files;
- low computer system utilization requirements.

DDBM (Digitech's Data Base Manager)

- very efficient data file accessing;
- support batch or demand users.

Access to either client or Digitech developed data bases may be in a time-share and/or batch mode or clients may simply request information retrieval on an over-the-counter basis.





COMPUTER SERVICES

Digitech's main strength lies in providing services that require an in-depth knowledge of computer, industry applications and how to best 'marry' the applications to the computer in the most cost-efficient manner. Through computer services, Digitech offers substantial experience and expertise in both primary and secondary resource industry applications available to external clients. This total service includes:

COMPUTERS

- large scale UNIVAC mainframe computing system;
- special purpose mini-computer systems;
- several computer graphics systems.

COMMUNICATION

- over-the-counter job submission;
- dial-up low speed terminals;
- high speed remote job entry (RJE);
- computer to computer communications;
- time-share or batch operations.

SYSTEMS and APPLICATIONS SOFTWARE

- wide range of applications software;
- language processors including COBOL, FORTRAN, etc.

DATA BASE FILE SOFTWARE and SUPPORT

- UNIVAC DMS-1100 (Data Management System);
- access to Digitech supported files;
- implementation and support of client generated data bases.

CONTRACT SERVICES

Digitech has developed various in-house software products through our internal resources and makes these resources available to external clients via contract services.

- Digitech is prepared to sell and support its internally developed software products. All sales include full documentation, training and support through maintenance, revisions and upgrade.



CONTRACT SERVICES

(continued)

CONTRACT SOFTWARE

- Digitech will design, construct and implement custom software to meet the specific requirements of a client. Classes of our software expertise include:
 - primary and secondary resource industry applications in terms of exploration, production and modelling;
 - data base applications;
 - graphics and digitizing applications.

FACILITY MANAGEMENT SERVICES

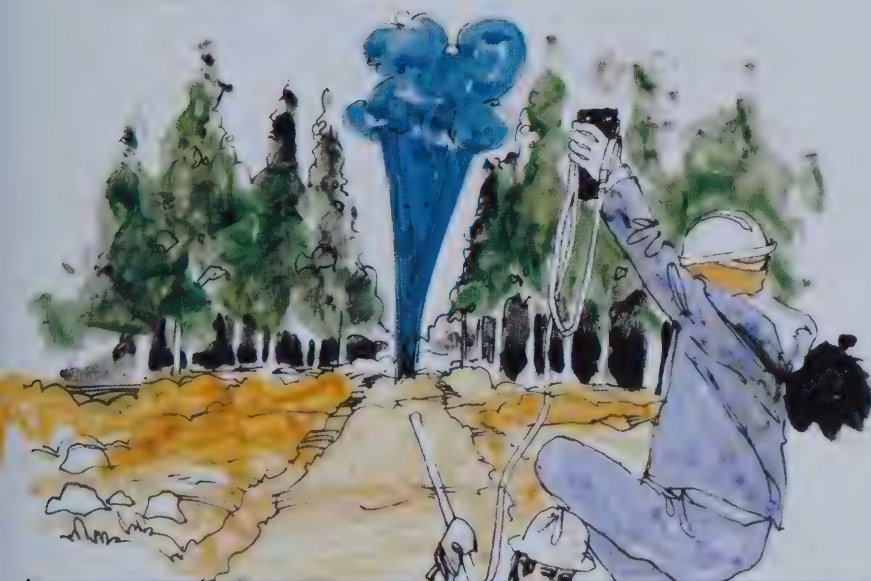
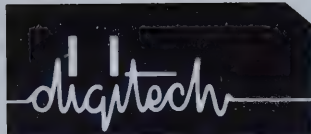
- The years of experience in both resource oriented and general data processing have given Digitech its in-depth expertise in optimizing its computer systems - hardware and software. We are prepared to provide assistance to other companies having similar equipment via:
 - consulting service on the selection of hardware/software systems;
 - supervision of systems hardware/software implementation;
 - maintenance and modification of Operating Systems and support utilities;
 - custom driver software design and implementation.

DIGITECH IN RELATED INDUSTRIES

Digitech's expertise lies in providing computer services to the petroleum exploration industry, particularly in geological and geophysical applications. Digitech has also been very successful in obtaining and executing projects which parallel our present experience and expertise. Consider our experience:

- Computer hardware/software operations, limitations and optimum utilization;
- total petroleum industry experience and expertise in geological and geophysical applications;
- in-depth experience in data base management systems, graphics hardware and software, digitizing and modelling applications.

A combination of the above has put Digitech in the position of being able to successfully manage and complete a wide variety of projects in most primary or secondary resource industry applications.



GEOPHYSICAL DATA ACQUISITION

DIGISEIS EXPLORATION LTD.
1242 - 34th Avenue N.E.
Calgary, Alberta, Canada T2E 6L9
(403) 276-9831

DIGISEIS EXPLORATION INC.
Suite 120, 6801 South Yosemite
Englewood, Colorado 80112
(303) 770-8222

The DIGISEIS companies will further complement Digitech's reputation for providing 'TOTAL CAPABILITY' to the geophysical industry.

DIGISEIS Exploration Ltd. (based in Calgary) and DIGISEIS Exploration, Inc. (based in Denver), seismic data acquisition contractors, are in full operation.

These companies are equipped with 'state of the art' floating point recording instruments to satisfy the direct link of today's highly technical and complex recording techniques. The Canadian crews use a conventional dynamite energy source and the U.S. is equipped with Vibroseis* systems mounted on all terrain vehicles.

Instrumentation utilized by the DIGISEIS crews will afford future potential in portable seismic exploration. The concern about conservation and dense population point out the need for more highly portable crew operations.

A core of experienced and competent personnel are managing both operations which ensures the client of the most reliable and consistent data obtainable in the field. The DIGISEIS companies are quickly acquiring the confidence of the industry for high quality recording and excellent productivity.

*Registered trademark of Continental Oil Co.





SENIOR COMPANY PERSONNEL

Seated from left:

W. D. DeGraff, Secretary-Treasurer

Donald C. Burt, President

Donald W. Simpson, Vice President

Standing from left:

Hilton G. Hack, Vice President

Roger R. Rose, Vice President

Wm. (Bill) G. Carr, Marketing Manager

Neil M. Thompson, Vice President

FINANCIAL STATEMENTS — 1978

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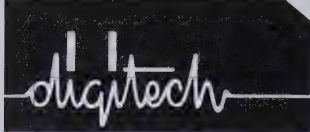
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DIGITECH LTD.

Consolidated Balance Sheet

as at June 30

ASSETS

Current assets:

	1978	1977
Cash and term deposits.....	\$1,397,000	\$ 93,000
Accounts receivable (Note 2).....	1,047,000	785,000
Inventories (Note 3).....	237,000	199,000
Prepaid expenses and deposits.....	34,000	16,000
	2,715,000	1,093,000
Fixed assets, programs and systems (Note 4).....	533,000	369,000
Other.....	8,000	31,000
	<u>\$3,256,000</u>	<u>\$1,493,000</u>

Auditors' Report

To the Shareholders of
Digitech Ltd.

We have examined the consolidated balance sheet of Digitech Ltd. as at June 30, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at June 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
September 5, 1978.

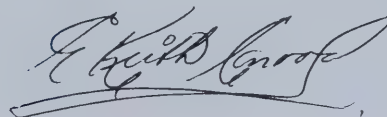
Rice Waterhouse & Co

Chartered Accountants

LIABILITIES, SHARE CAPITAL AND RETAINED EARNINGS

	1978	1977
Current liabilities:		
Accounts payable and accrued	\$ 634,000	\$ 379,000
Unearned revenue	183,000	10,000
Income taxes payable (Note 7)	258,000	—
Current portion of long-term debt	190,000	216,000
	1,265,000	605,000
Long-term debt less current portion (Notes 5 and 11)	665,000	611,000
Minority interests	93,000	—
Share capital (Notes 6 and 11)		
Authorized —		
5,000,000 shares without nominal or par value		
100,000 preferred shares with a nominal or		
par value of \$20 each		
Issued —		
2,136,764 shares without nominal or par value	954,000	944,000
Retained Earnings (Deficit)	279,000	(667,000)
	1,233,000	277,000
Commitments (Note 9)		
	<u>\$3,256,000</u>	<u>\$1,493,000</u>

APPROVED BY THE BOARD:



DIRECTOR:



DIRECTOR:

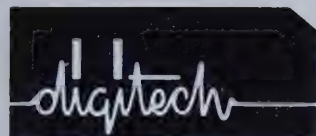


DIGITECH LTD.

Consolidated Statement of Earnings and Retained Earnings

Year Ended June 30

	1978	1977
REVENUE	\$5,973,000	\$4,398,000
EXPENSES:		
Operating	3,633,000	3,048,000
Selling and administration	907,000	811,000
Interest —		
Long-term debt	59,000	68,000
Other	9,000	9,000
Depreciation and amortization	180,000	180,000
	<u>4,788,000</u>	<u>4,116,000</u>
EARNINGS from continuing operations		
before income taxes	1,185,000	282,000
Provision for income taxes (Note 7)	580,000	134,000
EARNINGS from continuing operations	605,000	148,000
Minority interest in losses of subsidiaries	19,000	—
Loss from discontinued operations	—	(40,000)
EARNINGS before extraordinary items	<u>624,000</u>	<u>108,000</u>
EXTRAORDINARY ITEMS:		
Gain (loss) arising from discontinuance of		
certain operations	—	(11,000)
Reduction in income taxes (Note 7)	322,000	134,000
	<u>322,000</u>	<u>123,000</u>
NET EARNINGS for the year	946,000	231,000
DEFICIT, beginning of year	(667,000)	(898,000)
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ 279,000</u>	<u>\$ (667,000)</u>
EARNINGS per share (Note 8)		

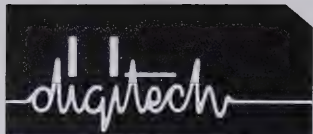


DIGITECH LTD.

Consolidated Statement of Changes in Financial Position

Year Ended June 30

	1978	1977
WORKING CAPITAL PROVIDED BY:		
Operations.....	\$1,107,000	\$462,000
Loss from discontinued operations before depreciation and amortization	—	(40,000)
	<u>1,107,000</u>	<u>422,000</u>
Extraordinary items	—	(8,000)
	<u>1,107,000</u>	<u>414,000</u>
Issue of share capital		
Digitech Ltd.	10,000	150,000
Minority interests — subsidiaries	112,000	—
Issue of long-term debt	240,000	75,000
Other.....	16,000	(2,000)
	<u>1,485,000</u>	<u>637,000</u>
WORKING CAPITAL USED FOR:		
Purchase of fixed assets and programs.....	337,000	110,000
Repayment of long-term debt and changes in current portion	186,000	217,000
	<u>523,000</u>	<u>327,000</u>
INCREASE IN WORKING CAPITAL	962,000	310,000
WORKING CAPITAL, BEGINNING OF YEAR.....	488,000	178,000
WORKING CAPITAL, END OF YEAR.....	<u>\$1,450,000</u>	<u>\$488,000</u>



DIGITECH LTD.

Notes to Consolidated Financial Statements

June 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of Digitech Ltd. and its subsidiaries, as follows:

DIGISEIS Exploration Ltd.	55% owned
DIGISEIS Exploration, Inc.	57% owned
Nobbs, Buchner & Associates Ltd.	51% owned

INVENTORIES

Geological and geophysical work in progress is valued at the lower of estimated cost or net realizable value, other inventories at the lower of estimated cost or replacement cost.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization is calculated on a straight line basis at rates designed to amortize costs over useful lives; computer and accessories over periods not exceeding six years assuming no salvage values; furniture and fixtures over periods of up to ten years; and leasehold improvements over the terms of the leases. Cost of programs, systems and data purchased from others are amortized over periods not exceeding five years. The undepreciated or unamortized cost of any items having doubtful future revenue potential are written off. Current program development costs are expensed as incurred.

FOREIGN EXCHANGE TRANSLATION

Transactions in U.S. dollars, together with the accounts of DIGISEIS Exploration, Inc., have been translated to Canadian dollars; fixed assets at historical exchange rates, all other assets and liabilities at the year-end exchange rate and revenue and expenses, except for depreciation and amortization, at the average monthly rate of exchange. Resulting gains or losses are included in income.

STATEMENT PRESENTATION

Certain 1977 amounts have been reclassified to conform to the 1978 presentation.

2. AMOUNT DUE FROM SHAREHOLDERS

Accounts receivable include loans of \$198,000, due from minority shareholders, which were collected in July, 1978.

An amount of \$4,000, arising from a share purchase agreement, is due from a shareholder who is a director and officer.

3. INVENTORIES

	1978	1977
Computer tapes, spare parts and supplies	\$ 95,000	\$ 83,000
Work in progress.	142,000	116,000
	<u>\$237,000</u>	<u>\$199,000</u>

4. FIXED ASSETS, PROGRAMS AND SYSTEMS

	Cost	Accumulated depreciation and amortization	1978 Net Book value	1977 Net Book value
Computer equipment and accessories.	\$ 863,000	\$ 688,000	\$175,000	\$ 82,000
Furniture and fixtures	174,000	111,000	63,000	56,000
Leasehold improvements	191,000	86,000	105,000	115,000
Seismic vehicles and equipment.	157,000	1,000	156,000	—
	<u>1,385,000</u>	<u>886,000</u>	<u>499,000</u>	<u>253,000</u>
Programs and systems	358,000	324,000	34,000	116,000
	<u>\$1,743,000</u>	<u>\$1,210,000</u>	<u>\$533,000</u>	<u>\$369,000</u>



5. LONG-TERM DEBT

	<u>1978</u>	<u>1977</u>
7¾% Promissory Notes, unsecured, carrying restrictions on incurring debt and lease commitments and other matters, repayable in equal annual instalments to 1981	\$538,000	\$686,000
10¾% to 13% Chattel Mortgages, secured by equipment, due in monthly instalments	72,000	128,000
8% Promissory Notes, unsecured, interest payable annually and principal due in 1988, to minority shareholders of subsidiaries	245,000	13,000
	<u>855,000</u>	<u>827,000</u>
Less: Current portion	<u>190,000</u>	<u>216,000</u>
	<u>\$665,000</u>	<u>\$611,000</u>

Amounts due in each of the next five years:

1979 - \$190,000	1982 - \$99,000
1980 - \$167,000	1983 - \$ —
1981 - \$154,000	

6. SHARE CAPITAL

Under a former share purchase plan, 26,375 shares were issued and notes received in consideration. The notes receivable were previously written off. During fiscal 1978, the shares were returned to treasury and cancelled under provisions of the trust agreement.

Under the Employee Stock Option Plan, 25,000 shares were issued in fiscal 1978 for a cash consideration of \$0.40 per share.

Of the authorized but unissued common stock, 532,444 shares were reserved at June 30, 1978.

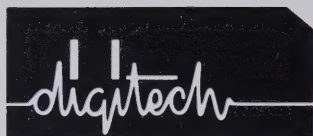
- (i) 246,132 shares at \$0.30 each, exercisable until November 1, 1981, by holders of the 7¾% Promissory Notes.
- (ii) 246,132 shares at \$0.30 each, exercisable until November 1, 1981, contingent upon the exercise indicated in (i) above, by a corporation, owned by Directors of the Company, who hold directly and indirectly in excess of 50% of the issued and outstanding shares of the Company.
- (iii) 40,180 shares exercisable at \$0.40 per share until July 31, 1981, under the Employee Stock Option Plan.

7. INCOME TAXES

The provision for income taxes (\$580,000) represents the taxes which would have been payable on income of approximately \$1,233,000. By claiming capital cost allowances for tax purposes in excess of the depreciation and amortization recorded in the accounts and by claiming tax loss carry-forwards, income taxes of \$258,000 are payable. This reduction in taxes otherwise payable has been shown as an extraordinary item of income. Actual tax losses of prior years were all claimed in fiscal 1978.

Taxation authorities are reviewing certain of the losses claimed. In management's view these losses are fully deductible for tax purposes. In the event that these losses are disallowed, the extraordinary reduction in income taxes, and net earnings of fiscal 1978 would be decreased and taxes payable increased, by approximately \$120,000.

No provision has been made for possible future tax benefits which may result from claiming costs not yet claimed for tax purposes. At June 30, 1978 the undepreciated cost of fixed assets, programs and systems for tax purposes exceeded the related amounts for accounting purposes by approximately \$700,000.



8. EARNINGS PER SHARE

	1978		1977
	Basic	Fully Diluted	Basic
Income from continuing operations	\$.27	\$.22	\$.08
Income before extraordinary items	\$.28	\$.23	\$.06
Extraordinary items16	.13	.16
Net income for the year	<u>\$.44</u>	<u>\$.36</u>	<u>\$.12</u>

Fully diluted earnings per share have been calculated assuming that all shares reserved for issue (532,444) had been issued at the beginning of the year.

9. COMMITMENTS

The companies have commitments with respect to the purchase of seismic equipment in the approximate amounts of \$530,000 Canadian and \$1,200,000 U. S. These purchases will be fully financed by four year term bank loans in the same currencies and the Canadian financing has been completed.

The companies' equipment lease and maintenance commitments total approximately \$1,250,000 per year through 1981. The premises leases aggregate approximately \$264,000 per year. The major premises lease expires in 1983.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers, including performance bonuses, amounted to \$360,000 during fiscal 1978.

11. SUBSEQUENT EVENTS

During the month of August 1978 the Directors of the Company declared a dividend of ten cents (10¢) per share payable to shareholders of record at the close of business October 5, 1978.

The Company has received notice from Canadian Enterprise Development Corporation Limited, Bow Valley Industries Ltd., and Conrad Burt Industries Ltd. of their intent to subscribe to 492,264 shares of the Company through the options previously granted to the above companies as described in Note 6 (i) and 6 (ii). Concurrent with the issue of these shares, promissory notes due to certain of the subscribing companies will be settled in the amount of \$99,000. The effect of the settlement of these notes will be to reduce Long Term Debt by \$74,000, and current portion of Long Term Debt by \$25,000.

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